

CENTRAL DAVIS SEWER DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2005

CENTRAL DAVIS SEWER DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Honorable Board of Trustees
Central Davis Sewer District
Kaysville, Utah

We have audited the accompanying financial statements of the Central Davis Sewer District as of and for the year ended December 31, 2005, which collectively comprise the District's financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Davis Sewer District at December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements.

INDEPENDENT AUDITOR'S REPORT

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In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 5 are not a required part of the financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Davis, Chare & Associates

May 30, 2006

CENTRAL DAVIS SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING DECEMBER 31, 2005

INTRODUCTION

The following is a discussion and analysis of Central Davis Sewer District's financial performance and activities for the year ending December 31, 2005.

HIGHLIGHTS

Central Davis Sewer District continued investing in its infrastructure in calendar year 2005. The majority of the work on the Brandon Street trunk bypass line was completed this year. The final project costs are over \$650,000. New fine screens were installed in the headwork building and several major pumps and control systems were rebuilt or replaced.

Also in 2005, the District participated extensively in research relating to plant operations and end of pipe water quality standards. The District continued to be the lead agency on research aimed at insuring the environmental health of Farmington Bay and the associated wetlands. Changes to water quality standards for the Bay could require extensive treatment plant upgrades, so insuring the accuracy of this scientific evaluation is critical to rate stability and change justification.

During 2005, the District's revenue base increased as about 500+ new connections were added to the system. The District service charge rates for collections and treatment remained constant this year, as they have for the past seven years with continued growth covering the cost of inflation. Future rates will continue to be based on needs of the District for continued operations and the renewal and replacement of facilities. The District has a 20 year forecast which attempts to identify when rate changes are needed. For the next five years, at current growth projections, only a minor increase may be needed (5-10%) to meet collection system and treatment plant needs. The Farmington Bay research may impact rates if more stringent discharge water quality standards are shown to be needed. While regulatory change is possible, water quality beneficial use impairments have not yet been identified and current standards appear to be adequate.

The District was presented a National Association of Clean Water Agencies Platinum Award in 2005 recognizing five years of operation without a single violation of Clean Water Act Standards or permit conditions.

At the end of 2005, Fruit Heights City Council and the District Board of Trustees agreed to the transfer of the Fruit Heights sewer collection system to the District. This will become effective in 2006 and will improve the level of sewer system maintenance for the Fruit Heights residents.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the District's Basic Financial Statements. The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States, promulgated by the Government Accounting Standards Board. The District reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the District's significant accounting policies.

Management's Discussion and Analysis

The District's financial statements are comprised of three basic statements. The Statement of Net Assets shows the overall net assets of the District. Increases and decreases in net assets are one indicator of the District's overall financial condition. The Statement of Revenues, Expenses, and Changes in Fund Net Assets identify functions of the District that are intended to recover all or most of their costs primarily through user fees and charges (business-type activities). The Statement of Cash Flows reports cash flows in four categories or activities - operating, capital and related financing, non-capital financing and investing.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The largest component of the District's net assets, 77.7%, reflects investments in capital assets (land, buildings, equipment, and infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they all be readily liquidated to pay off the related liabilities.

Restricted net assets comprise 5.8% of total net assets and are subject to external restrictions on how they may be used. The remaining 16.5% of net assets is unrestricted and may be used at the District's discretion to meet its ongoing obligations to citizens and creditors.

Business-Type Activities

The business-type activities are summarized as follows:

	2005	2004
Assets		
Current and other assets	\$ 4,148,951	\$ 3,331,379
Restricted assets	1,377,245	1,713,895
Capital assets - net of depreciation	25,391,268	25,057,917
Total assets	30,917,464	30,103,191
Liabilities		
Current liabilities	711,214	685,477
Non-current liabilities	6,274,000	7,126,000
Total liabilities	6,985,214	7,811,477
Net Assets		
Invested in capital assets net of related debt	18,596,268	17,410,917
Restricted for debt retirement	1,079,000	1,179,000
Restricted for construction	298,245	534,895
Unrestricted	3,958,737	3,166,902
Total net assets	\$ 23,932,250	\$ 22,291,714

Management's Discussion and Analysis

Changes in Net Assets

The Net Assets in the Enterprise Fund increased by \$1,640,536.

	2005	2004
Revenues		
Operating revenue	\$ 2,302,667	\$ 2,218,839
Operating expenses	3,398,987	3,040,185
Operating income (loss)	(1,096,320)	(821,346)
Non-operating revenues	1,901,999	1,350,746
Non-operating expenses	(221,202)	(264,726)
Net income before capital contributions	584,477	264,674
Capital contributions	1,056,059	666,135
Change in net assets	1,640,536	930,809
Net assets - beginning	22,291,714	21,360,905
Net assets - ending	\$ 23,932,250	\$ 22,291,714

Capital Assets

Central Davis Sewer District added \$1,577,839 in new capital assets during the fiscal year.

Long-Term Debt

The District currently owes \$6,795,000 in sewer revenue bond obligations. The proceeds from the bonds were used to finance the District's construction of plant facilities and improvements to the sewer system. \$521,000 of the debt will be paid in the current year with \$6,274,000 remaining in long-term debt. Total long-term debt was reduced by \$852,000 during the year.

ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of Central Davis Sewer District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or any other matters related to the District's finances should be addressed to Central Davis Sewer District, 2200 S. Sunset Drive, Kaysville, Utah 84037.

CENTRAL DAVIS SEWER DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

	Business-Type Activities - Enterprise Funds <u>Sewer</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 3,595,483
Accounts receivable	451,755
Property tax receivable	59,637
Prepaid expenses	42,076
Total current assets	<u>4,148,951</u>
Noncurrent assets:	
Restricted cash and cash equivalents	1,377,245
Fixed assets	38,741,655
Less: Accumulated depreciation	<u>(13,350,387)</u>
Total noncurrent assets	<u>26,768,513</u>
Total assets	<u>30,917,464</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	132,975
Other payables	467
Compensated absences	56,772
Revenue bonds - current	521,000
Total current liabilities	<u>711,214</u>
Noncurrent liabilities:	
Revenue bonds	<u>6,274,000</u>
Total liabilities	<u>6,985,214</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	18,596,268
Restricted-debt retirement	1,079,000
Restricted-construction	298,245
Unrestricted	<u>3,958,737</u>
Total net assets	<u>\$ 23,932,250</u>

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Sewer</u>
<u>OPERATING REVENUE</u>	
Sewer service charges	\$ 2,268,725
Miscellaneous sales	<u>33,942</u>
Total operating revenue	<u>2,302,667</u>
<u>OPERATING EXPENSES</u>	
Depreciation	1,271,102
Salaries and wages	673,004
Utilities	214,386
Employee benefits	268,811
Plant operating supplies	73,837
Plant, repairs and maintenance	195,805
Professional services	415,585
Collection system - repairs and maintenance	89,930
Insurance and surety bonds	76,660
Office supplies and expense	23,653
Travel	21,200
Auto and equipment expense	50,181
Fees - Board of Trustees	13,200
Collection system operating supplies	<u>11,633</u>
Total operating expenses	<u>3,398,987</u>
Operating income (loss)	<u>(1,096,320)</u>
<u>NONOPERATING REVENUE (EXPENSES)</u>	
General property taxes	392,449
Fees-in-lieu of taxes	34,815
Impact fees	1,315,697
Interest income	142,084
Gain on sale of assets	16,954
Interest on bonds	<u>(221,202)</u>
Total nonoperating revenue (expenses)	<u>1,680,797</u>
Net income (loss) before contributions	584,477
Capital contributions	<u>1,056,059</u>
Change in net assets	1,640,536
Net assets - beginning	<u>22,291,714</u>
Net assets - ending	<u><u>\$ 23,932,250</u></u>

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Sewer</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 2,129,608
Payments to suppliers	(1,425,439)
Payments to employees	(672,405)
	<u>31,764</u>
Net cash provided (used) by operating activities	
Cash Flows From Noncapital Financing Activities	
Receipts from property taxes	425,837
	<u>425,837</u>
Net cash provided (used) by noncapital financing activities	
Cash Flows From Capital and Related Financing Activities	
Impact fees	1,315,697
Proceeds from sale of assets	63,150
Bond proceeds	2,700,000
Principal paid on capital debt	(3,552,000)
Interest paid on capital debt	(221,202)
Purchases of capital assets	(594,591)
	<u>(288,946)</u>
Net cash provided (used) by capital and related financing activities	
Cash Flows From Investing Activities	
Interest and dividends received	142,084
	<u>142,084</u>
Net cash provided (used) by investing activities	
Net increase (decrease) in cash and cash equivalents	310,739
Cash and cash equivalents - beginning	4,661,989
Cash and cash equivalents - ending	<u>\$ 4,972,728</u>

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Sewer</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$(1,096,320)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,271,102
(Increase) decrease in prepaid expense	4,304
(Increase) decrease in accounts receivable	(173,059)
Increase (decrease) in accounts payable	<u>25,737</u>
Net cash provided (used) by operating activities	<u>\$ 31,764</u>

Noncash Capital Financing Activities:

Capital assets of \$1,056,059 were acquired through contributions from developers.

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Central Davis Sewer District, Utah conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The District has adopted the provisions of the Governmental Accounting Standards Board (GASB). Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

The following is a summary of the more significant policies and is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

A. Reporting Entity

The Central Davis Sewer Improvement District is a special district organized for the purpose of providing sewage treatment services to Davis County cities. The District operates under a Board of Trustees form of government.

The criteria set forth by generally accepted accounting principles (GAAP) was used to determine which entities to include in this report. GASB Concepts Statement-1 (Objectives of Financial Reporting) concludes that the basic foundation for governmental financial reporting is accountability. The Concepts Statement asserts that accountability requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used. In turn, the concept of accountability becomes the basis for defining the financial reporting entity. Under GASB-14 (The Financial Reporting Entity) the financial reporting entity consists of the primary government.

The District has no component units.

B. Fund Financial Statements

The financial transactions of the District are recorded in an individual fund. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The District reports the following major proprietary fund:

Sewer Fund - The sewer fund is used to account for operations of the sewer system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Taxes and fees are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

The District has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Accordingly, the District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Consequently, the District does not apply FASB pronouncements issued after November 30, 1989.

D. Assets, Liabilities, and Fund Balances/Net Assets

The following are the District's significant policies regarding recognition and reporting of certain assets, liabilities, and equity.

Pooled Cash and Temporary Investments

Unrestricted and restricted cash balances are combined to form a pool of cash which is managed by the District Treasurer. Utah State Statutes allow for investments in the Utah Public Treasurer's Investment Fund and Utah Money Management Act (UMMA) approved financial institutions. The UMMA provides for a committee to evaluate financial institutions and provide a list of those qualified as depositories for public funds, including the amount they are authorized to maintain over and above insured amounts. The District Treasurer invests unrestricted and restricted cash with the Utah Public Treasurer's Investment Fund and with local financial institutions. Investments in the pooled cash fund consist primarily of certificates of deposit, repurchase agreements, and time deposits and are carried at cost which approximates market value. Interest income earned as a result of pooling is distributed to the appropriate funds based on month end balances of cash. The District considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Inventories

No significant inventories are maintained by the District, therefore none are reflected in these statements.

Restricted Assets

Certain resources set aside as reserves in accordance with District resolutions and State statutes are classified as restricted assets on the statement of net assets because their use is limited.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Balances/Net Assets (Continued)

Capital Assets

All purchased fixed assets are valued at cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

Infrastructure capital assets which are newly constructed or contributed are capitalized.

Depreciation of all exhaustible capital assets is charged as an expense in the related program. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	30-50 years	Equipment	5-10 years
Improvements	10-50 years	Infrastructure	25-40 years

Long-term Obligations

In the proprietary fund financial statements, long-term debt obligations are reported as liabilities.

Net Assets/Fund Balances

The difference between assets and liabilities is *net assets* on the fund financial statements.

E. Revenues and Expenditures

The following are the District's significant policies related to recognition and reporting of certain revenues, and expenditures.

Revenue Availability

Statement of Governmental Accounting Standards (SGAS) No. 33, Accounting and Financial Reporting for Non-exchange Transactions, defines a non-exchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), the District has the legal right to collect the taxes, and in accordance with the provisions of the new statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1, 2005.

Expenditure Recognition

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the District generally uses restricted resources first, then unrestricted resources.

F. Contributions

Certain proprietary fund types receive contributions for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Compensated Absences

District policy provides for vested or accumulated vacation leave. All compensated absences are accrued when incurred in the proprietary financial statements.

H. Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The District's deposits are carried at cost.

At December 31, 2005, the carrying amount of the District's deposits was \$1,051,319 and the bank balance was \$1,172,404. Of the bank balance, \$100,000 was covered by federal depository insurance.

B. Investments

At year-end investments consist of funds in the Utah Public Treasurer's Investment Fund. This investment is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. The investment is not categorized as to credit risk because it does not represent a security that exists in physical or book entry form. Investments are carried at cost which approximates their fair value.

Investments not subject to categorizations:

	Carrying Amount	Market Value
Utah Public Treasurer's Investment Fund	<u>\$ 3,921,109</u>	<u>\$ 3,919,399</u>

C. Summary

	Carrying Amount
Deposits	\$ 1,051,619
Investment in Utah Public Treasurer's Investment Fund	3,921,109
Total deposits and investments	<u>\$ 4,972,728</u>
Equity in pooled cash and investments	\$ 3,595,483
Restricted cash - debt retirement	1,079,000
Restricted cash - construction	298,245
Total deposits and investments	<u>\$ 4,972,728</u>

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposit and Investment Risk Disclosure. Deposits and investments for Central Davis Sewer District are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the District's exposure to various risks related to its cash management activities.

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of District funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commission of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The District's deposits in the bank in excess of the insured amount are uninsured and are not collateralized, nor do state statutes require them to be. The District's deposits at December 31, 2005, were \$1,172,404, of which \$100,000 was insured under federal depository insurance.

Credit risk. Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act.

The District is also authorized to invest in the Utah Public Treasurer's Investment Fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

For the year ended December 31, 2005, the local government had investments of \$3,921,109 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest rate risk. Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy to limit this risk is to adhere to the rules of the Money Management Act.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2005, was as follows:

	Balance December 31, 2004	Additions	(Deletions)	Balance December 31, 2005
BUSINESS-TYPE ACTIVITIES				
Nondepreciated Assets				
Land	\$ 840,006	\$ 14,775	\$ -	\$ 854,781
Work in progress	81,501	116,894	-	198,395
Total nondepreciated assets	921,507	131,669	-	1,053,176
Depreciated Assets				
Farmington collection system	5,533,018	797,098	-	6,330,116
Buildings and structures	8,117,503	-	-	8,117,503
Improvements - other than buildings	1,123,130	62,388	-	1,185,518
Machinery and equipment	8,085,565	227,342	-	8,312,907
Sewer collection system	8,402,152	68,443	-	8,470,595
Kaysville collection system	4,236,585	258,961	-	4,495,546
Vehicles	667,382	95,208	(72,811)	689,779
Office furniture and equipment	76,974	9,541	-	86,515
Total depreciated assets	36,242,309	1,518,981	(72,811)	37,688,479
Less accumulated depreciation				
Farmington collection system	(1,064,729)	(133,223)	-	(1,197,952)
Buildings and structures	(2,736,166)	(210,891)	-	(2,947,057)
Improvements - other than buildings	(465,298)	(71,818)	-	(537,116)
Machinery and equipment	(4,583,641)	(520,773)	-	(5,104,414)
Sewer collection system	(1,537,870)	(170,217)	-	(1,708,087)
Kaysville collection system	(1,194,493)	(89,818)	-	(1,284,311)
Vehicles	(467,967)	(62,434)	26,615	(503,786)
Office furniture and equipment	(55,736)	(11,928)	-	(67,664)
Total	(12,105,900)	(1,271,102)	26,615	(13,350,387)
Net assets depreciated	24,136,409	247,879	(46,196)	24,338,092
Business type activities - net	\$ 25,057,916	\$ 379,548	\$ (46,196)	\$ 25,391,268
Depreciation Expense				
		Business Type		
December 31, 2005		\$ 1,271,102		

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 4 - LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2005, was as follows:

Description	Interest Rate	Outstanding 12/31/2004	Additions	Payments	Outstanding 12/31/2005	Current Portion
Sewer Revenue Bond						
Series 2003A	1.9%	\$ 2,700,000	\$ -	\$ (2,700,000)	\$ -	\$ -
Sewer Revenue Bond						
Series 2003B	3.0%	385,000	-	(72,000)	313,000	75,000
Sewer Revenue Bond						
Series 2003C	3.0%	419,000	-	(65,000)	354,000	67,000
Sewer Revenue Bond						
Series 2003D	5.0%	347,000	-	(347,000)	-	-
Sewer Revenue Bond						
Series 2003E	4.5%	3,796,000	-	(221,000)	3,575,000	231,000
Sewer Revenue and Refunding Bond						
Series 2005	0.5%	-	2,700,000	(147,000)	2,553,000	148,000
Total Long Term Debt		<u>\$ 7,647,000</u>	<u>\$ 2,700,000</u>	<u>\$ (3,552,000)</u>	<u>\$ 6,795,000</u>	<u>\$ 521,000</u>

Bond Resolution

On May 8, 2003, Central Davis Sewer District passed a resolution authorizing the issuance and confirming the sale of (1) \$2,700,000 Sewer Revenue Bonds, Series 2003A, (2) \$523,000 Sewer Revenue Refunding Bonds, Series 2003B, (3) \$543,000 Sewer Revenue Refunding Bonds, Series 2003C, (4) \$441,000 Sewer Revenue Refunding Bonds, Series 2003D, (5) \$4,210,000 Taxable Sewer Revenue Refunding Bonds, Series 2003E, of the Central Davis Sewer District, Davis County, Utah, for the purpose of defraying a portion of the cost of constructing a sewer system improvements and related improvements and retiring and refunding the issuer's outstanding sewer revenue bonds, Series 1989A, Series 1990A, Series 1990B, and Series 1997, prescribing the form of bonds, the terms and conditions of issuance and retirement and the security therefor, providing for the collection, handling and disposition of the revenues to be derived from the District's sewer system, authorizing the taking of all other actions necessary to the consummation of the transactions contemplated by this bond resolution, and related matters.

During the year ended December 31, 2005, the Sewer Revenue Bonds series 2003A - \$2,700,000 and Series 2003D - \$347,000 were completely paid off.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Amortization of long-term bonded debt

Annual requirements to amortize long-term bonded debt and related interest as of December 31, 2005, is as follows:

Fiscal Year Ended Dec. 31	Sewer Revenue Bonds Series 2003B		Total
	Principal	Interest	
2006	*	*	*
2007	75,000	9,390	84,390
2008	77,000	7,140	84,140
2009	79,000	4,830	83,830
2010	82,000	2,460	84,460
	<u>\$ 313,000</u>	<u>\$ 23,820</u>	<u>\$ 336,820</u>

* The January 1, 2006, payment was made on December 31, 2005.

Annual requirements to amortize long-term bonded debt and related interest as of December 31, 2005, is as follows:

Fiscal Year Ended Dec. 31	Sewer Revenue Bonds Series 2003C		Total
	Principal	Interest	
2006	*	*	*
2007	67,000	10,620	77,620
2008	69,000	8,610	77,610
2009	71,000	6,540	77,540
2010	73,000	4,410	77,410
2011	74,000	2,220	76,220
	<u>\$ 354,000</u>	<u>\$ 32,400</u>	<u>\$ 386,400</u>

* The January 1, 2006, payment was made on December 31, 2005.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Amortization of long-term bonded debt (Continued)

Annual requirements to amortize long-term bonded debt and related interest as of December 31, 2005, is as follows:

Fiscal Year Ended Dec. 31	Sewer Revenue Bonds Series 2003E		Total
	Principal	Interest	
2006	*	*	*
2007	231,000	160,875	391,875
2008	242,000	150,480	392,480
2009	252,000	139,590	391,590
2010	264,000	128,250	392,250
2011	276,000	116,370	392,370
2012	288,000	103,950	391,950
2013	301,000	90,990	391,990
2014	315,000	77,445	392,445
2015	329,000	63,270	392,270
2016	343,000	48,465	391,465
2017	359,000	33,030	392,030
2018	375,000	16,875	391,875
	<u>\$ 3,575,000</u>	<u>\$ 1,129,590</u>	<u>\$ 4,704,590</u>

* The January 1, 2006, payment was made on December 31, 2005.

** These bonds bear no interest, however the Issuer is obligated to pay a Hardship Grant Assessment which is computed in the same manner as interest at a rate of 4.50%.

Bond Resolution

On March 10, 2005, Central Davis Sewer District passed a resolution authorizing the issuance and confirming the sale of \$3,105,000 sewer revenue and refunding bonds, Series 2005, for the purposes of funding the Farmington Bay Study, completing construction of the Issuer's sewer system and related improvements, and retiring and refunding all of the Issuer's outstanding sewer revenue bonds Series 2003A; prescribing the form of bonds; the terms and condition of issuance and retirement and the security therefore; providing for the collection handling and disposition of the revenues to be derived from the District's sewer system; authorizing the publication of a notice of bonds to be issued; authorizing the taking of all other actions necessary to the consummation of the transactions contemplated by this Bond Resolution; and related matters.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Amortization of long-term bonded debt (Continued)

Annual requirements to amortize long-term bonded debt and related interest as of December 31, 2005, is as follows:

Fiscal Year Ended Dec. 31	Sewer Revenue Bonds Series 2005		Total
	Principal	Interest	
2006	*	*	*
2007	148,000	14,790	162,790
2008	149,000	14,050	163,050
2009	151,000	13,305	164,305
2010	151,000	12,550	163,550
2011	151,000	11,795	162,795
2012	153,000	11,040	164,040
2013	153,000	10,275	163,275
2014	154,000	9,510	163,510
2015	155,000	8,740	163,740
2016	155,000	7,965	162,965
2017	156,000	7,190	163,190
2018	157,000	6,410	163,410
2019	158,000	5,625	163,625
2020	159,000	4,835	163,835
2021	160,000	4,040	164,040
2022	161,000	3,240	164,240
2023	161,000	2,435	163,435
2024	161,000	1,630	162,630
2025	165,000	825	165,825
	<u>\$ 2,958,000</u>	<u>\$ 150,250</u>	<u>\$ 3,108,250</u>

* The January 1, 2006, payment was made on December 31, 2005.

The funds to be provided from the bond issue purchaser (State of Utah Division of Water Quality) are only released as project costs are incurred. The actual amount of funds released less principal payments made was the actual amount of the bond payable at December 31, 2005, which was \$2,553,000. The balance of \$405,000 represents funds yet to be released from the \$3,105,000 bond amount.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 5 - PENSION PLANS AND RETIREMENT BENEFITS

Local Governmental - Cost Sharing

Plan Description. The Central Davis Sewer District contributes to the Local Governmental Noncontributory Retirement system, which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes general-purpose financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System the Central Davis Sewer District is required to contribute, for the period of January - December 2005, 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Central Davis Sewer District contributions to the Local Governmental Noncontributory Retirement System for 2005, 2004, and 2003, were \$68,544, \$59,863, and \$49,289 respectively. The contributions were equal to the required contributions for each year.

The Central Davis Sewer District contributions for 401(k) system for 2005, 2004, and 2003, were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Employee contribution	\$ 26,732	\$ 24,780	\$ 21,966
Employer for employee contributions	\$ 9,469	\$ 8,836	\$ 8,255

NOTE 6 - LIABILITY FOR COMPENSATED ABSENCES

The liability for compensated absences represents the accrued liability for the vested or accumulated vacation leave for earlier years. These amounts represent the accumulated unpaid vacation leave which would be paid if employees terminated employment as of December 31, 2005. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability as the benefits accrue to employees. The amount accrued as of December 31, 2005 and 2004, was \$56,772, and \$56,173 respectively.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 7 - BOND RESOLUTION COMPLIANCE - SEWER REVENUE BONDS

The Central Davis Sewer District has carried out the requirements of the bond resolution. Central Davis Sewer District has established the funds required by the bond resolution.

2005 Series

The required reserve accounts were set up as follows:

- 1) The debt service account was established to accumulate debt service payments over the next twelve months, the principal and interest payment of \$156,488 due and payable January 1, 2006, was made prior to December 31, 2005, in accordance with the bond resolution; therefore, the balance in the reserve account at December 31, 2005, was \$-0-.
- 2) The debt service reserve fund requirement shall be \$165,825. This reserve is fully funded and the balance in the reserve account at December 31, 2005, was \$166,000.
- 3) The renewal and replacement reserve fund requirement shall be \$81,765. This reserve is fully funded and the balance in the reserve account at December 31, 2005, was \$82,000.

2003 Series B

The Central Davis Sewer District has carried out the requirements of the bond resolution. Central Davis Sewer District has established the funds required by the bond resolution.

The required reserve accounts were set up as follows:

- 1) The debt service account was established to accumulate debt service payments over the next twelve months, the principal and interest payment of \$83,550 due and payable January 1, 2006, was made prior to December 31, 2005, in accordance with the bond resolution; therefore, the balance in the reserve account at December 31, 2005 was \$-0-.
- 2) The debt service reserve fund requirement shall be \$84,000. This reserve is fully funded and the balance in the reserve account at December 31, 2005, was \$84,000.
- 3) The renewal and replacement reserve fund requirement shall be \$42,000. This reserve is fully funded and the balance in the reserve account at December 31, 2005, was \$42,000.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 7 - BOND RESOLUTION COMPLIANCE - SEWER REVENUE BONDS (CONTINUED)

2003 Series C

The Central Davis Sewer District has carried out the requirements of the bond resolution. Central Davis Sewer District has established the funds required by the bond resolution.

The required reserve accounts were set up as follows:

- 1) The debt service account was established to accumulate debt service payments over the next twelve months, the principal and interest payment of \$77,570, due and payable January 1, 2006, was made prior to December 31, 2005, in accordance with the bond resolution; therefore, the balance in the reserve account at December 31, 2005, was \$-0-.
- 2) The debt service reserve fund requirement shall be \$78,000. This reserve is fully funded and the balance in the reserve account at December 31, 2005, was \$78,000.
- 3) The renewal and replacement reserve fund requirement shall be \$39,000. This reserve is fully funded and the balance in the reserve account at December 31, 2005, was \$39,000.

2003 Series E

The Central Davis Sewer District has carried out the requirements of the bond resolution. Central Davis Sewer District has established the funds required by the bond resolution.

The required reserve accounts were set up as follows:

- 1) The debt service account was established to accumulate debt service payments over the next twelve months, the principal and interest payment of \$391,820, due and payable January 1, 2006, was made prior to December 31, 2005, in accordance with the bond resolution; therefore the balance in the reserve account at December 31, 2005, was \$-0-.
- 2) The debt service reserve fund requirement shall be \$392,000. This reserve is fully funded and the balance in the reserve account at December 31, 2005, was \$392,000.
- 3) The renewal and replacement reserve fund requirement shall be \$196,000. This reserve was fully funded and the amount in the reserve account at December 31, 2005, was \$196,000.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 7 - BOND RESOLUTION COMPLIANCE - SEWER REVENUE BONDS (CONTINUED)

The net revenues for the year ended December 31, 2005, were equal to at least 125% of the aggregate debt service for such year on the bonds, computed in accordance with the bond resolution.

The number of customers at December 31, 2005, were as follows:

County	56 Residential	
	1 Commercial	
Farmington	3,705 Residential	
	164 Commercial	
Kaysville	5,622 Residential	
	346 Commercial	
Fruit Heights	1,345 Residential	
	13 Commercial	
	<u>11,252</u>	
Total Residential	10,728	
Total Commercial	<u>524</u>	
	<u>11,252</u>	
Total service fees collected		\$2,268,725
Minus two large commercial users		<u>77,640</u>
		\$2,191,085
Divided by number of connections (not including two large commercial users)		<u>11,252</u>
Average charge per connection		<u>\$ 194.73</u>

NOTE 8 - RISK MANAGEMENT

Central Davis Sewer District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property, bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of December 31, 2005, there is no anticipation of unpaid claims. Therefore, a liability is not accrued. Settlement amounts have not exceeded coverage for the current year or the three prior years.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 8 - RISK MANAGEMENT (CONTINUED)

A list of insurance policies in force at December 31, 2005, is as follows:

<u>Coverage</u>	<u>Policy Limits</u>	<u>Insurer</u>	<u>Expiration Date</u>
General liability	\$2,000,000	St Paul Ins	8/1/2006
Business auto	\$2,000,000	St Paul Ins	8/1/2006
Property and buildings	\$16,098,153	St Paul Ins	8/1/2006
Employment practices	\$5,000,000	St Paul Ins	8/1/2006
Employee dishonesty bond	\$385,000	St Paul Ins	3/15/2006
Contractors equipment	\$1,236,190	St Paul Ins	8/1/2006
Excess liability	\$10,000,000	St Paul Ins	8/1/2006
Public officials Errors and omissions	\$10,000,000	St Paul Ins	8/1/2006
Public Entity Management Liability	\$2,000,000	St Paul Ins	8/1/2006

NOTE 9 - RESTRICTED ASSETS

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond future debt service" account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The "revenue bond renewal and replacement" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

The Revenue Bond Resolution for Sewer Revenue Bonds

Series 2005 requires the following restricted accounts:

Debt service account (note 7)	\$ -
Debt service reserve account (note 7)	166,000
Renewal and replacement reserve (note 7)	82,000
Total sewer revenue bond Series 2005 reserve	<u>\$ 248,000</u>

The Revenue Bond Resolution for Sewer Revenue Bonds

Series 2003B requires the following restricted accounts:

Debt service account (note 7)	\$ -
Debt service reserve account (note 7)	84,000
Renewal and replacement reserve (note 7)	42,000
Total sewer revenue bond Series 2003B reserve	<u>\$ 126,000</u>

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 9 - RESTRICTED ASSETS (CONTINUED)

The Revenue Bond Resolution for Sewer Revenue Bonds Series 2003C requires the following restricted accounts:

Debt service account (note 7)	\$ -
Debt service reserve account (note 7)	78,000
Renewal and replacement reserve (note 7)	39,000
	<hr/>
Total sewer revenue bond Series 2003C reserve	\$ 117,000

The Revenue Bond Resolution for Sewer Revenue Bonds Series 2003E requires the following restricted accounts:

Debt service account (note 7)	\$ -
Debt service reserve account (note 7)	392,000
Renewal and replacement reserve (note 7)	196,000
	<hr/>
Total sewer revenue bond Series 2003E reserve	\$ 588,000

TOTAL RESTRICTED ASSETS PER REVENUE BOND RESOLUTIONS

Debt service account	\$ -
Debt service reserve account	720,000
Renewal and replacement reserve	359,000
	<hr/>
TOTAL	\$ 1,079,000

NOTE 10- LEGAL COMPLIANCE BUDGETS

The budget for the fiscal year ending December 31, 2005, was approved and adopted by resolution or ordinance dated December 9, 2004. A public hearing, meeting the requirements specified in the Utah Code 11-35-113/114, was held on December 9, 2004. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the enterprise fund. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not used by the District.

NOTE 11 - RESTRICTED NET ASSETS

Reserved for Debt Retirement - This represents required bond reserves for revenue bonds outstanding.

Reserved for Construction - This represents bond proceeds received and restricted for sewer improvements.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 12 - POST-EMPLOYMENT BENEFITS

The District does not provide any post-employment benefits.

NOTE 13 - INTEREST EXPENSE

The proprietary fund incurred \$221,202 in interest expense of which \$221,202 was charged to expense and \$-0- was capitalized.

NOTE 14 - PROPERTY TAX CALENDAR

Lien date	Jan. 1
Taxing districts notify the county of date, time and place of public hearing	Mar. 1
County auditor sends valuation certified tax rate and levy worksheets to each taxing district	Jun. 8
Taxing district must adopt a proposed tax rate, certify the rate and levy, and submit it to the county auditor	Before Jun. 22
Taxing district adopts a final tax rate if there is no increase in the certified tax rate	Jun. 22
Due date for property taxes	Nov. 30
Taxing district adopts the final budget prior to beginning of the ensuing year	
Copy of the budget is submitted to the state auditor within 30 days of its adoption	

CENTRAL DAVIS SEWER DISTRICT

AUDITOR'S REPORTS

DECEMBER 31, 2005

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Board of Trustees
Central Davis Sewer District
Kaysville, Utah

We have audited the financial statements of the Central Davis Sewer District, for the year ended December 31, 2005, and have issued our report thereon dated May 30, 2006. Our audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Impact fees

Budgetary Compliance
Property Tax
Special District Compliance Items
Other Compliance Requirements

The District did not receive any major or nonmajor State grants during the year ended December 31, 2005.

The management of the Central Davis Sewer District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

INDEPENDENT AUDITOR'S REPORT ON
STATE LEGAL COMPLIANCE

Page 2

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Central Davis Sewer District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

Davis, Chare & Associates

May 30, 2006

CENTRAL DAVIS SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-STATE LEGAL COMPLIANCE
DECEMBER 31, 2005

There were no findings and questioned costs for the year ended December 31, 2005.

CENTRAL DAVIS SEWER DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS-
STATE LEGAL COMPLIANCE

DECEMBER 31, 2005

There were no findings and questioned costs for the year ended December 31, 2004.

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tartina Chase, CPA

Ann Singleton, CPA

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**Central Davis Sewer District
Kaysville, Utah**

We have audited the financial statements of the Central Davis Sewer District, as of and for the year ended December 31, 2005, and have issued our report thereon dated May 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Central Davis Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Davis Sewer District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over the financial reporting and its operation that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
PAGE 2

This report is intended solely for the information of the audit committee, legislative body, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Davis, Chase & Associates

May 30, 2006